

2005

ANNUAL REPORT



**LEHMAN
TRIKES**

Leader of the Three World

Lehman Trikes, Inc. develops, manufactures, markets and distributes completed trikes and conversion kits. The Lehman team is located in two facilities: Westlock, Alberta, Canada and Spearfish, South Dakota, United States. Our employees are devoted to producing a quality product that gives our riders the "Threedom" experience.

Over the years, Lehman Trikes, Inc. has developed a professional dealer network. Lehman dealers are strategic partners, focused on delivering the completed trikes to the end users. Last year, Lehman was the first and only trike manufacturer with sponsored on-the-spot retail financing and trike insurance. These additions allow our dealers to get the riders on our trikes and on the road quickly.

Lehman Trikes, Inc. offers conversion kits for most current models of Harley-Davidson motorcycles and two models of Honda motorcycles. In 2005 Lehman was the first and only manufacturer to introduce a trike based on the new generation Harley-Davidson Sportster line of motorcycles. The Company also offers a factory conversion based on the Suzuki Boulevard C-50 motorcycle.

Lehman Trikes continues to develop and nurture factory OEM relationships, while continuing pre-production testing.

ONE COMPANY . . .

ONE VISION . . .

ONE MISSION . . .



John Lehman
*Founder , Senior
Vice-President
& Director*



Les Brown
*Chairman of the
Board and Director*



Dan Patterson
*COO - Canada,
CEO - USA & Director*



Larry Strilchuk
*CEO - Canada
& Director*



Jim Wild
Director



Doug Hauck
Director



Timothy Kling
*CFO &
Corporate Secretary*

Shareholders Annual Meeting

Lehman Trikes shareholder meeting taking place at 9:00 a.m. on July 14, 2006 at the Westlock Inn, Westlock, AB

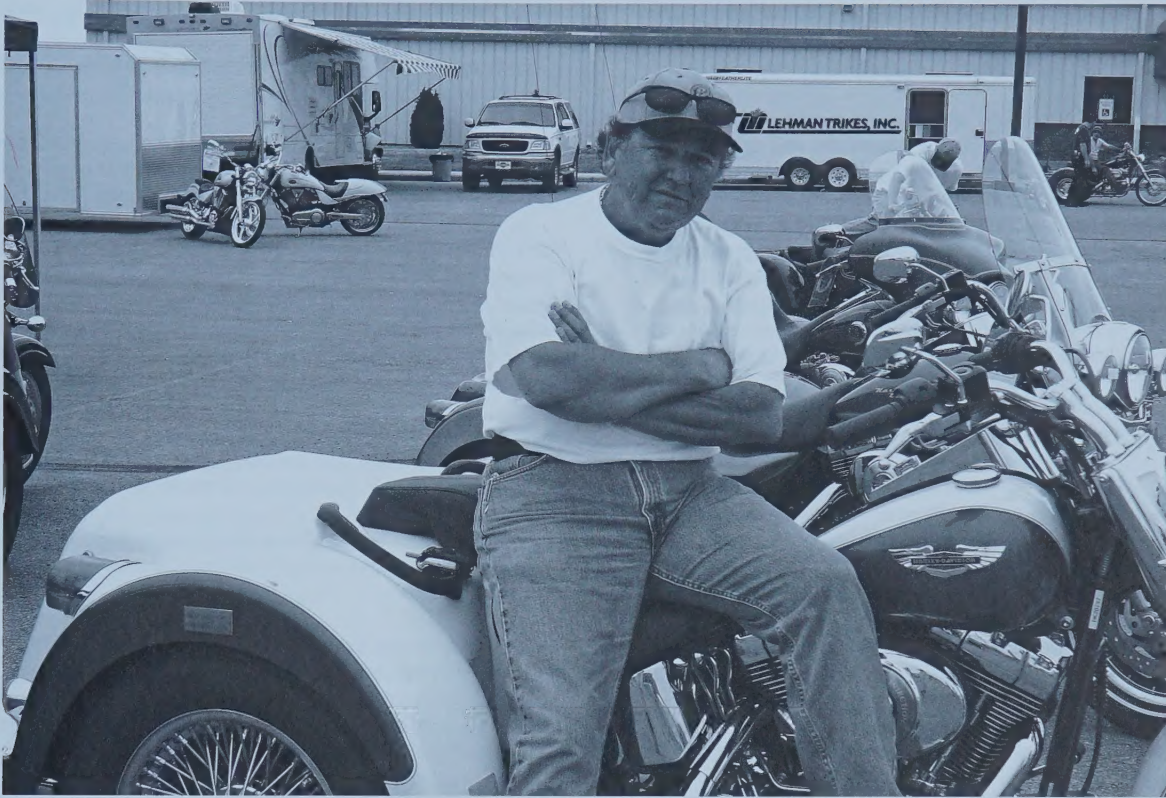
Cover Photo

Recently installed Lehman signage provides greater visibility to traffic on I-90.

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PRESIDENT'S MESSAGE



Dan Patterson C.O.O. Lehman Trikes, Inc. and President USA Operations

This past year has been another year of turbulent change filled with major challenges for your board, management team and Lehman employees. Our transition of assembly and distribution is virtually complete and production operations in Canada have continued to show improvement. The strategic direction of the company remains on track and has positioned our company for growth and prosperity.

We have revamped our dealer network, improved the overall delivery of our product, and stabilized our financial position. Additionally, the Company's management structure has been reorganized to achieve cost competitiveness while improving the effectiveness of our company. A detailed review of our product offering was completed. This effort had a net effect of reducing the number of models offered and improved the delivery to our dealers and customers. Additionally, this action allowed our production and marketing team to focus on those products that have the greatest return for our stakeholders. In the spring of 2005, we transferred the accounting and administrative functions to Spearfish and implemented a complete review of our financial records, production costing, inventory valuation, and identification of slow moving parts and components. The decisions resulting from this review are reflected in the additional write-offs taken at year end. Although, the year end financials were disappointing, our company is now positioned to take advantage of the growing market demand for our products.

In closing, I would like to take this opportunity to express my thanks to all of our stakeholders for their continued support. I look forward to a successful and profitable 2006.

ONE COMPANY - ONE VISION - ONE MISSION

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements for the years ended November 30, 2005 and 2004 and the "Non GAAP Measures" Appendix "A" (attached).

The entire discussion in this document, as well as other management discussion of the Corporation's vision, business strategies and expectations as reported in the business plan, information circular, annual information form, quarterly management discussion and analysis, regulatory filing, press releases and other reports, contains forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The words "believe," "expect," "intend," "anticipate" or any variations of such words and similar expressions identify forward-looking statements, but their absence does not mean that the statement is not forward-looking. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Factors that effect the Corporation's actual results include the rate of market acceptance of the Corporation's products and services; the ability to market the Corporation's products and services; as well as the status of competing products and services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document.

OVERVIEW

Products

The Corporation assembles and sells two main product lines: motorcycle conversion kits and complete trikes. In addition, the Corporation sells a broad line of accessories, some of which are manufactured by the Corporation, while others are made for them by other manufacturers. A conversion kit consists of the rear wheel assembly, body and other parts and components required to convert a conventional two wheel motorcycle into a trike. Each kit is designed and engineered for a particular make and model of motorcycle. The designs undergo extensive lab and road testing. The process from initial research through design, engineering, prototype and testing generally takes about 6 to 12 months to complete.

Lehman Trikes offers conversion kits for Honda motorcycles and most modern models of Harley Davidson motorcycles. The Corporation can also convert these kits, along with one designed for the Suzuki C50, into completed trikes. The complete trikes are assembled using the conversion kits and motorcycles purchased by the Corporation from dealers at standard retail prices. Accessories for trikes marketed by the Corporation include but are not limited to light bars, wheels, luggage racks, trailer hitches, shocks and running boards.

Marketing

Lehman Trikes does not sell directly to consumers; therefore, the Corporation directs its market initiative to two distinct levels. The first level is aimed at potential and existing product users; promoting trikes as a unique and growing recreational product as well as the Lehman Trikes Brand. Marketing goals are achieved through participation in rallies and trade shows, advertising in appropriate consumer magazines and the operation of an exclusive Lehman Trikes Owners' Group (Lehman Pride) which facilitates participation in a variety of activities and whose members receive issues of an owners' group magazine (Pride Matters). In addition, extensive support is provided to dealers for store promotions. Existing and potential customers can access a website which provides detailed information on the Corporation, dealers' locations as well as descriptions and specifications of all products.

The second level marketing initiatives focus on assisting existing dealers to grow and develop their businesses and to attract new dealers in specific geographic areas. Activities to achieve these goals include: technical and sales training, annual dealer meetings, customer referrals, floor plan financing, insurance packages and participation in regional and national rallies and trade shows. Regional representatives and a national business development coordinator provide on-going support to dealers.

MANAGEMENT CHANGES

On February 2, 2005, Lehman Trikes announced the appointment of Mr. Les Brown as Chief Financial Officer.

On August 15, 2005, Lehman Trikes, Inc. announced the appointment of Daniel W. Patterson, Sr. to Chief Operating Officer of the Corporation and President of its wholly owned subsidiary, Lehman Trikes U.S.A., Inc.

On October 20, 2005, the Company announced the retirement of Phillip Shragge as Director and Chairman of the Board. Lehman Trikes, Inc. would like to express our thanks for the years of service Mr. Shragge has contributed to our organization. Mr. Les Brown was appointed and elected as Chairman of the Board. Mr. Brown continued his role as Chief Financial Officer until TSX-V approved a replacement.

Subsequent Changes

On February 13, 2006, Mr. Timothy Kling was appointed as Chief Financial Officer. Mr. Les Brown will retain his position as Chairman.

On February 17, 2006, Mr. Doug Hauck was appointed as an Outside Director. He will serve on the Audit and Compensation Committee for the Board of Directors.

With these changes, the focus of the Board of Directors and Management of Lehman Trikes, Inc. has not changed. The Company and its management are committed to be the **"Leader of the Three World."** Our mission is to develop, manufacture and distribute conversion kits and completed trikes.

SUBSEQUENT EVENTS

On January 15, 2006, the Corporation completed its placement of a \$400,000 convertible debenture. The convertible debenture will have a 2 year term, an interest rate of 5% per annum, and be convertible into common shares of the Corporation at a price of \$0.25 per share. The convertible debentures were purchased entirely by insiders of the company or related parties. The funds from this instrument were used for short term working capital.

In February 2006 Lehman Trikes entered into a lease agreement for a new phone system for the Spearfish facility. The total of all lease payments including interest is \$21,830.81 US.

Lehman Trikes has been notified by the California Air Resource Board that they are under subpoena for information.

On March 20, 2006, the Company announced a private placement to raise \$1.1 million by issuance of 8,380,952 shares at a price of \$0.13125 per share. The proceeds of this placement will be used for working capital.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. These principles require us to make certain estimates and assumptions that affect the reporting amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We believe that the estimates and assumptions upon which we rely are reasonable based upon information available at the time these estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions.

DISCUSSION OF QUARTERLY RESULTS

A loss of \$843,680 was incurred in the fourth quarter compared to a loss of \$483,087 for the same quarter of 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

In June of 2005, management commenced a program to review in detail inventory costing and obsolescence. In the fourth quarter, significant write-down of inventory values were recorded. The review is on-going; however, management believes further major write-downs are unlikely.

DISCUSSION OF ANNUAL RESULTS

During the year, the Corporation completed its transition of marketing, product support, distribution and administration departments to its Spearfish, South Dakota facility.

Revenues declined 31.4% which reflects a major reduction in the number of models offered and consolidation within the distribution systems.

Margins during this year was 29.1% compared to 30.6%.

The annual operating expenses for 2005 were \$1,297,811 lower than in 2004 which represented 39.3% of sales versus 33.3% of sales in 2004.

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) was \$267,981 in this year compared to \$873,069 for 2004 (See Appendix "A")

BALANCE SHEET

Current Assets, Current Liabilities, and Working Capital

Accounts receivable decreased primarily due to the Company's efforts to encourage its dealers to use alternate inventory financing sources, such as GE Finance.

The Corporation has entered into forward exchange contracts in an effort to mitigate its currency risk. These contracts do not require a deposit. At November 30, 2005, the Company had \$931,312 forward exchange contracts that expire before March 1, 2006.

Inventory has been reduced. The Corporation has implemented a program to right-size the inventory needed to operate. We have implemented programs to purchase off-shore items in greater quantities, at lower costs. These bulk purchases have resulted in some reduction in the inventory cost which is carried.

In order to fund the operations, the Corporation entered into some short-term demand loan arrangements. These loans were established as a bridge until the Corporation could arrange for an equity placement. As of the March 20, 2006, the Corporation has announced a private placement to repay some of these demand loans.

At November 30, 2005 the working capital position of the Corporation, \$85,078 compared to \$813,920 at November 30, 2004. The reduction in Accounts Receivable and Inventory are the major contributors to this change.

Capital Assets

There were no significant changes in the Capital Assets of the Corporation during this period.

Equity and Share Capital

Tangible net worth is \$947,593 compared to \$2,071,918 at November 30, 2004 (see Appendix "A").

CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations was a positive \$1,071,931 for the year ended November 30, 2005 compared to negative \$12,021 for 2004.

Investing Activities

Expenditures on the Development program have been reduced this year. This reduction is the result of downsizing the Engineering department during 2004.

During this period, the Company has reclassified two Certificates of Deposits, from Cash Equivalents to Short-term investments. One of the deposits is collateralized against Lehman Trikes USA, Inc. operating line of credit. The other is a deposit with the Bank of Montreal collateralized against the operating travel credit cards.

Liquidity and Capital Resources

The Corporation intends to meet its future working capital requirements and fund its planned development and expansion projects through a combination of appropriate debt and equity instruments.

Outstanding Securities of the Issuer

As of March 29, 2006, the Corporation has 22,459,970 common shares outstanding.

As of March 29, 2006, the Corporation has no outstanding share purchase warrants.

As of March 29, 2006, the Corporation has 46,000 outstanding stock options.

On February 17, 2006, the Board of Directors approved a stock grant of 1,300,000 shares to key employees. As of March 29, 2006, these options have not been issued.

SUMMARY OF QUARTERLY RESULTS

		Nov 30 2005	Aug 31 2005	May 31 2005	Feb 28 2005	Nov 30 2004	Aug 31 2004	May 31 2004	Feb 29 2004	Nov 30 2003
Total Revenue	(000 omitted)	\$ 3,060	\$ 3,734	\$ 3,912	\$ 2,813	\$ 6,647	\$ 4,104	\$ 5,347	\$ 3,673	\$ 4,815
Net earnings (loss) from continuing operations	(000 omitted)	(1,047)	235	(147)	(393)	(123)	(202)	(30)	(187)	(1,707)
Basic per share		(0.047)	0.010	(0.007)	(0.018)	(0.005)	(0.009)	(0.001)	(0.008)	(0.089)
Fully diluted per share		(0.047)	0.010	(0.007)	(0.018)	(0.005)	(0.009)	(0.001)	(0.008)	(0.089)
Net earnings (loss)	(000 omitted)	(844)	149	121	(359)	(485)	6	86	(201)	(996)
Basic per share		(0.038)	0.007	0.005	(0.016)	(0.022)	0.000	0.004	(0.009)	(0.052)
Fully diluted per share		(0.038)	0.007	0.005	(0.016)	(0.022)	0.000	0.004	(0.009)	(0.052)

MANAGEMENT DISCUSSION AND ANALYSIS

APPENDIX "A"

NON-GAAP EARNINGS AND FINANCIAL POSITION MEASURES

The Company uses certain earnings and financial position measures that do not have standard definitions prescribed by Generally Accepted Accounting Principles. The Company has included these measures because it believes they are used by certain investors as measures of the Company's financial performance. The measures used by Lehman Trikes Inc are defined as follow:

EBITDA is defined as Earnings Before Interest, Taxes, Depreciation and Amortization.

Tangible Net Worth is defined as share capital and retained earnings less intangible assets.

Working capital is defined as current assets less current liabilities.

Pre-Tax Cash Flow is defined as Income Before Income Taxes plus non-cash items.

Reconciliation of Non-GAAP earnings measures to GAAP Net Earnings

	For Three Months Ending November 30		For Twelve Months Ending November 30	
	2005	2004	2005	2004
Net Income (loss)	\$ (843,680)	\$ (483,087)	\$ (933,547)	\$ (592,953)
Income Taxes (Recovered)	-	202,523	-	151,328
Income (loss) before Income Taxes	(843,680)	(280,564)	(933,547)	(441,625)
Amortization	143,523	266,818	671,647	890,963
Other Interest Expense	123,863	(219,370)	394,862	387,549
Interest On Long Term Debt	34,481	304,291	135,019	36,182
EBITDA	\$ (541,813)	\$ 71,175	\$ 267,981	\$ 873,069

Pre-Tax Cash Flow

	For Three Months Ending November 30		For Twelve Months Ending November 30	
	2005	2004	2005	2004
Net Income (loss)	\$ (843,680)	\$ (483,087)	\$ (933,547)	\$ (592,953)
Income Taxes (Recovered)	-	202,523	-	151,328
Income (loss) before Income Taxes	(843,680)	(280,564)	(933,547)	(441,625)
Amortization	143,523	266,818	671,647	890,963
Pre-Tax Cashflow	\$ (700,157)	\$ (13,746)	\$ (261,900)	\$ 449,338

Working Capital

	November 30	
	2005	2004
Current Assets	\$ 6,174,101	\$ 6,989,798
Current Liabilities	6,089,023	6,175,878
Working Capital	\$ 85,078	\$ 813,920

Tangible Net Worth

	November 30	
	2005	2004
Shareholder Equity	\$ 2,160,121	\$ 3,093,668
Intangible Assets	1,212,528	1,021,750
Tangible Net Worth	\$ 947,593	\$ 2,071,918

CONSOLIDATED FINANCIAL STATEMENTS OF LEHMAN TRIKES, INC.

Management's Responsibility for Financial Reporting

To the Shareholders of Lehman Trikes, Inc.:

The accompanying consolidated financial statements of Lehman Trikes, Inc. were prepared by management in accordance with accounting principles generally accepted in Canada. The significant accounting policies, which management believes are appropriate for the company, are described in Note 1 to the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Estimates are necessary in the preparation of these consolidated statements and, based on careful judgments, have been properly reflected in the consolidated financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, which is comprised of outside directors and which meets periodically with management and the independent auditors to discuss the company's financial reporting practices and procedures, its systems of internal accounting controls, the planned scope of examinations by independent auditors and their findings and recommendations. It also reviews the company's consolidated financial statements.

The company's auditors, MacKay LLP, Chartered Accountants, conduct an examination on behalf of the shareholders, in accordance with Canadian generally accepted auditing standards and express their opinion on the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements of the company. The independent auditors have free access to the Audit Committee of the Board.

"Larry Strilchuk"

Larry Strilchuk
President

"Timothy C. Kling"

Timothy C. Kling
Chief Financial Officer

Auditor's Report

**CHARTERED
ACCOUNTANTS**

MacKay LLP

1100 – 1177 West Hastings Street
Vancouver, BC V6E 4T5
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Fax: 604-687-5805
Toll Free: 1-800-351-0426
www.MacKayLLP.ca

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To the Shareholders of Lehman Trikes, Inc.:

We have audited the consolidated balance sheets of Lehman Trikes, Inc. as at November 30, 2005 and 2004, and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, British Columbia
March 28, 2006

"MacKay LLP"
Chartered Accountants

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

LEHMAN TRIKES, INC.

Years ended November 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
REVENUE	\$ 13,519,466	\$ 19,770,687
COST OF SALES	9,580,503	13,723,417
GROSS PROFIT	3,938,963	6,047,270
EXPENSES		
General and administration	2,553,234	3,747,432
Selling and distribution	1,536,148	1,526,595
Amortization	618,331	890,963
Other interest expense	394,862	387,549
Interest on long-term debt	135,019	36,182
Write-down of goodwill	53,316	-
	5,290,910	6,588,721
LOSS FROM OPERATIONS	(1,351,947)	(541,451)
OTHER INCOME (EXPENSE)		
Gain on foreign exchange	418,400	99,826
LOSS BEFORE INCOME TAXES	(933,547)	(441,625)
INCOME TAXES		
Current	-	1,828
Future	-	149,500
	-	151,328
NET LOSS	(933,547)	(592,953)
DEFICIT, BEGINNING OF YEAR	(1,416,245)	(823,292)
DEFICIT, END OF YEAR	\$ (2,349,792)	\$ (1,416,245)
LOSS PER SHARE		
- Basic (Note 18)	\$ (0.042)	\$ (.027)
- Diluted (Note 18)	\$ (0.042)	\$ (.027)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES – Basic and diluted	22,459,970	22,139,422

CONSOLIDATED BALANCE SHEETS

LEHMAN TRIKES, INC.

As at November 30, 2005 and 2004

ASSETS

	2005	2004
CURRENT ASSETS		
Cash	\$ 72,441	\$ -
Accounts receivable	1,848,970	3,142,319
Inventory	2,968,281	3,571,345
Short term investments (note 2)	624,571	-
Prepaid expenses and deposits	659,838	243,374
Promissory notes receivable (Note 3)	-	32,760
	6,174,101	6,989,798
PROPERTY, PLANT AND EQUIPMENT (Note 4)	2,726,818	3,158,246
INTANGIBLE ASSETS (Note 5)	1,212,528	968,434
GOODWILL (Note 6)	-	53,316
	<u>\$ 10,113,447</u>	<u>\$ 11,169,794</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Bank indebtedness (Note 7)	\$ 3,323,421	\$ 3,631,110
Accounts payable and accrued liabilities	1,814,002	1,960,119
Demand loans (Note 8)	546,812	-
Installment loans (Note 9)	170,736	342,999
Current portion of long term debt	73,373	71,527
Current portion of obligations under capital leases	160,680	170,123
	6,089,024	6,175,878
INSTALLMENT LOANS (Note 9)	222,469	-
LONG TERM DEBT (Note 10)	1,572,337	1,670,071
OBLIGATIONS UNDER CAPITAL LEASES (Note 11)	69,496	230,177
	7,953,326	8,076,126
COMMITMENTS AND CONTINGENCY (Note 12)		
SHARE CAPITAL (Note 13)	4,509,913	4,509,913
DEFICIT	(2,349,792)	(1,416,245)
	2,160,121	3,093,668
	<u>\$ 10,113,447</u>	<u>\$ 11,169,794</u>

APPROVED BY THE BOARD

"Larry Strilchuk"

Director

"C.L. Brown"

Director

CONSOLIDATED STATEMENTS OF CASH FLOW

LEHMAN TRIKES, INC.

Years ended November 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Cash receipts from customers	\$ 14,850,247	\$ 20,385,799
Cash paid to suppliers and employees	(13,654,624)	(20,367,236)
Interest paid	(529,881)	(420,983)
Gain on foreign exchange	406,189	99,826
Income taxes paid	-	290,399
	1,071,931	(12,021)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(23,706)	(2,024,652)
Purchase of short term investments	(624,571)	-
Expenditures on intangible assets	(407,291)	(579,277)
	(1,055,568)	(2,603,929)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of promissory notes receivable	-	43,680
Repayment of Canadian Western revolving loan	(2,440,000)	-
Issuance of First Western revolving loan	2,880,282	-
Proceeds from (repayment of) revolving loans	(597,475)	(300,734)
Issuance of demand term loans	546,812	-
Repayment of demand loans	-	(99,876)
Repayment of long term receivable	32,760	-
Repayment of long-term debt	(174,335)	(42,229)
Principal payments on obligations under capital lease	(170,122)	(140,776)
Issuance of long term debt	-	1,984,320
Issuance of Share capital	-	1,200,000
Share issuance costs	-	(61,659)
	77,922	2,582,726
NET CASH PROVIDED (REQUIRED)	94,285	(33,224)
CASH (BANK OVERDRAFT), BEGINNING OF YEAR	(21,843)	11,381
CASH (BANK OVERDRAFT), END OF YEAR	\$ 72,441	\$ (21,843)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

LEHMAN TRIKES, INC.

November 30, 2005 and 2004

Note 1 Significant Accounting Policies

Significant accounting policies observed in the preparation of the consolidated financial statements are summarized below. These policies are in accordance with Canadian generally accepted accounting principles.

Basis of Consolidation

The consolidated financial statements are expressed in Canadian dollars and include the accounts of Lehman Trikes, Inc. (Canadian parent) and its wholly-owned subsidiary companies, Lehman Trikes U.S.A., Inc. (U.S. subsidiary), Lehman Corp (Barbados subsidiary), and International Turnkey Finance Inc. (Canadian subsidiary). The wholly-owned subsidiaries were incorporated in 2003 and have the same fiscal year ends as the parent company. All significant inter-company transactions and balances have been eliminated.

General

The company is a manufacturer of 3-wheel motorcycle conversion kits operating in Westlock, Alberta and Spearfish, South Dakota. It wholesales kits and converted motorcycles through an international dealer network located primarily in the United States.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents are defined as cash and short-term investments less bank indebtedness.

Revenue Recognition

Revenue from the sale of manufactured products is recognized when the price is fixed or determinable, collection is reasonably assured, and shipment is made to customer.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost for motorcycles and trikes are determined using the specific item basis. Cost for other inventory items is determined using the average cost basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. The company provides amortization on its property, plant and equipment using the following methods and rates:

	Method	Rate
Building	Straight-line	20 year
Equipment	Diminishing balance	20% - 30%
Equipment under capital lease	Diminishing balance	20% - 30%
Leasehold improvements	Straight-line	Term of lease plus one renewal option

Intangible Assets

Intangibles are recorded at cost. The company provides amortization on its intangibles using the straight-line method over the following periods:

	Period
Development costs	5 years
Patents	17 years

Development Costs

The company is actively engaged in developing new technology and products in its industry. Development costs related to a specific product or processes that management believes to be technically and economically feasible are capitalized. Deferred development costs are amortized on a straight-line basis against future revenues over the period of expected benefit, which is currently five years. If, at any time, the benefits of any costs capitalized are determined to no longer be of any value, such costs are written off in full. Any incentives or grants, received or receivable, which relate to the development activities of the company are deducted from the capitalized amount in the period. An annual impairment test was completed for the year, and it was determined that no impairment had occurred. Any impairment of development costs would be recognized as an expense in the period of impairment.

Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible and intangible assets acquired. Effective December 1, 2003, the Company prospectively adopted the new Canadian Institute of Chartered Accountants (CICA) standard 3062 - Goodwill and Other Intangibles ("CICA 3062"), which no longer permits the amortization of goodwill and other indefinite life intangibles but subjects these assets to fair value impairment tests on at least an annual basis.

Warranty Costs

The company accrues a liability for warranty obligations on the basis of historical claims. Actual warranty expenditures are charged against this liability.

Government Financing

The company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred. The company also receives loans which are recorded as liabilities in amounts equal to the cash received.

Future Income Taxes

Income taxes are accounted for using the future income tax method. Tax benefits have not been recorded due to uncertainty regarding their utilization.

Diluted (Loss) Earnings Per Share

The company follows the treasury stock method of calculating (loss) earnings per share. Under this method, the exercise of options is assumed to have occurred at the beginning of the period and the related common shares are assumed issued at that time. The proceeds from the exercise are assumed to have purchased common shares of the company at the average market price during the period. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per share calculation. The assumed conversion of options has an anti-dilutive impact in years 2005 and 2004.

Stock-based Compensation

The company's stock-based compensation plan is described in Note 19. The company applies the Black Scholes method of accounting for stock options granted to employees, officers and directors under the plan. Compensation expense has been recognized in the financial statements of the company.

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are classified as operating leases, wherein rental payments are expensed as incurred.

Foreign Currency Translation

The accounts of foreign operations, all of which are considered financially and operationally integrated, are translated into Canadian dollars from their functional currencies using average exchange rates for the year for revenue and expenses, other than amortization which is translated at the same exchange rates as the related assets. Monetary assets and liabilities are translated at the year end exchange rate and non-monetary assets and liabilities are translated using historical exchange rates. Gains or losses resulting from these translation adjustments are included in net earnings.

Statement of Cash Flow

The company is using the direct method in its presentation of the Statement of Cash Flow.

Financial Instruments

The company's financial instruments consist of Canadian and U.S. accounts receivable, promissory notes receivable, bank indebtedness, accounts payable and accrued liabilities, capital lease obligations, demand term loans and long-term debt. It is management's opinion that the company is not exposed to any significant credit risk arising from these financial instruments. The fair value of the company's financial instruments, excluding bank indebtedness, demand term loans and long-term debt, approximates their carrying value.

Note 1
Significant Accounting
Policies
continued...

Currency Risk

The company is exposed to currency risk with regards to its U.S. denominated accounts receivable and accounts payable. The company mitigates this risk by entering into forward exchange contracts with financial institutions to hedge assets, liabilities and future commitments.

At November 30, 2005 the company had the following foreign currency denominated financial assets and liabilities:

	<u>US Dollars</u>
Cash	\$ 71,854
Accounts receivable	1,320,755
Short-term investments	533,971
Accounts payable	301,951
Demand operating loan	2,332,200
Long-term debt	1,345,373

At November 30, 2005 US dollar amounts were converted at a rate of \$1.1687 Canadian dollars to \$1.00 US dollar.

Interest Rate Risk

The company is exposed to interest rate risk on its floating rate loans due to fluctuating interest rates. For each 1% change in the rate of interest on these loans, the change in interest expense would be approximately \$40,000 annually based upon the loan balances at November 30, 2005. The fair value of bank indebtedness, demand term loans and long-term debt does not differ significantly from its carrying value.

Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include providing for amortization of capital assets. Actual results could differ from those estimates.

Note 2
Short Term
Investments

Short term investments are comprised to 2 US dollar denominated term deposits, these are recorded at cost plus accrued interest. A US \$500,000 term deposit, bearing interest at 3.11% is held at the First Western Bank in Spearfish, and is collateral for the demand operating loan (note 7). A US \$30,000 term deposit is also held at the Bank of Montreal securing corporate credit cards of the Company.

Note 3
Promissory Notes
Receivable

Promissory notes receivable from certain managers and directors of the company, bearing interest at 2%, secured by common shares of the company. The notes were due June 30, 2004 and were paid as compensation during 2005.

	<u>2005</u>	<u>2004</u>
	\$ -	\$ 32,760

Note 4
Property, Plant
and Equipment

	<u>2005</u>			<u>2004</u>		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 421,363	\$ -	\$ 421,363	\$ 421,363	\$ -	\$ 421,363
Building	955,868	82,828	873,040	946,445	35,492	910,953
Equipment	2,977,124	1,935,588	1,041,536	2,962,767	1,691,545	1,271,222
Equipment under capital lease	700,048	464,364	235,684	700,048	327,923	372,125
Leasehold improvements	524,350	369,155	155,195	524,350	341,767	182,583
	<u>\$ 5,578,753</u>	<u>\$ 2,851,935</u>	<u>\$ 2,726,818</u>	<u>\$ 5,554,973</u>	<u>\$ 2,396,727</u>	<u>\$ 3,158,246</u>

Amortization provided for in the current year totaled \$455,134; (2004 - \$487,027).

Note 5
Intangible
Assets

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Development costs	\$ 2,888,301	\$1,858,837	\$1,179,483	\$2,903,430	\$1,969,013	\$ 934,417
Patents	41,702	8,657	33,045	41,702	7,685	34,017
	<u>\$ 2,930,003</u>	<u>\$1,867,494</u>	<u>\$1,212,528</u>	<u>\$2,945,132</u>	<u>\$1,976,698</u>	<u>\$ 968,434</u>

Amortization provided for in the current year totaled \$163,197; (2004 - \$403,936). Development costs of \$407,291 were incurred during the year, \$338,873 for payroll expenditures and \$68,418 for materials.

Note 6
Goodwill

	2005			2004		
	Cost	Impairment	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Costs	\$ 100,000	\$ 100,000	\$ -	\$ 100,000	\$ 46,684	\$ 53,316

The annual impairment test was completed for the year, goodwill has been written-down as a result.

Note 7
Bank
Indebtedness

Bank indebtedness is comprised of:

	2005	2004
Current account overdraft	\$ -	\$ 21,843
Demand operating loan (Note 7 (i))	2,634,484	-
Demand operating loan (Note 7 (ii))	-	2,440,000
Export purchase revolving loan (Note 7 (iii))	91,159	589,374
Export contract revolving loan (Note 7 (iv))	597,777	579,893
	<u>\$ 3,323,421</u>	<u>\$ 3,631,110</u>

- i) Asset Based Loan Agreement entered into on March 1, 2005 by Lehman Trikes U.S.A. Inc. (the company's wholly owned foreign subsidiary) with First Western Bank in Spearfish, SD. The Operating Line has a maximum of \$2,450,000US and the outstanding advances may not exceed the borrowing base which is composed of receivables and inventory levels. Interest is payable monthly at US prime rate plus 2.5%. As of November 30, 2005, the company was not in compliance with current ratio, working capital and networth covenants relating to Lehman Trikes USA, Inc. financial statements.
- ii) Demand operating loan with a maximum of \$2,640,000 bore interest at prime plus 2.50% and required monthly interest payments only. The demand operating loan together with the demand term loans (see Note 8) were secured by provisions contained in the credit facility agreement. The loan was paid out during the year ending November 30, 2005.
- iii) Export purchase revolving loan (entered into by Lehman Corp) with a credit limit of \$500,000US, bearing interest at US prime rate plus 1% secured by a floating charge over inventory and a general security agreement providing a security interest in all present and after acquired assets of Lehman Trikes, Inc. The loan is repayable in U.S. funds from the sale of inventory as proceeds are received but no later then 360 days from the date of the respective drawdown, whichever occurs first. Interest is payable monthly on the outstanding balance during the term. The credit facility requires the company to meet certain covenants. At November 30, 2005, the company was in compliance with these covenants.
- iv) Export contract revolving loan with a credit limit of \$600,000 bearing interest at 8%, renewable May 31, 2006 secured by a promissory note and a general security agreement providing a security interest in all present and after acquired assets of Lehman Trikes, Inc. including inventory, work in progress and accounts receivable. The loan is repayable upon collection of the related accounts receivable. Interest is payable monthly on the outstanding balance. The credit facility requires the company to meet certain covenants. At November 30, 2005, the company was in compliance with these covenants.

Note 8**Demand Loans****2005** **2004**

On March 17, 2005 Lehman Trikes Inc. entered into a Secured Loan Agreement pursuant to which it borrowed \$240,000 on a short term basis. The loan is payable on demand. The loan was non-interest bearing until June 1, 2005, thereafter the loan is subject to a 6% interest rate, increasing 2% per month to a maximum of 24%. The loan is secured against all of the assets of the Corporation and its subsidiary Lehman Trikes USA Inc.

\$ 240,000 \$ -
 5,812

Accrued interest as of November 30, 2005

On February 3, 2005 Lehman Trikes Inc. entered into a Secured Loan Agreement with 275101 Alberta Ltd., a company controlled by Insiders of the Company, to borrow \$253,000 on a short term basis. Interest is payable monthly at Canadian prime rate plus 2%.

253,000 -

Loan payable to Mr. Jim Kerr. Interest is payable monthly at an annual rate of 5%.

48,000 -
 \$ 546,812 \$ -

Note 9**Installment****Term Loans****2005** **2004**

The company has changed the classification of its demand term loans with respect to the current year only. In prior year, the whole installment loans category were classified as Current Liabilities.

Small business equipment loans payable in monthly payments ranging from \$454 to \$1,616, totaling \$4,123, plus interest at prime plus 1% with due dates ranging from September 2007 to December 2008 secured by a general security agreement providing a first security interest in all fixed assets, accounts receivable, inventory and all present and after acquired personal property of the company.

\$ 250,405 \$ 149,799

Term loan payable in monthly payments of \$4,200 plus interest at prime plus 4.5%, due September 1, 2008, secured by general security agreements from Lehman Trikes, Inc. and International Turnkey Finance Inc. providing a security interest in all present and after acquired personal property, and guarantees from Lehman Trikes U.S.A., Inc. and Lehman Corp. The credit facility requires the company to meet certain covenants which include specific working capital and long-term debt to tangible equity ratios. As at November 30, 2005, the company was in violation of the current ratios and working capital covenants.

142,800 193,200
 393,205 342,999

Principal amounts included in current liabilities

170,736 342,999
 \$ 222,469 \$ -

Amount due over the next two years is as follows:

2006	\$	170,736
2007		174,303
2008		48,166
Total	\$	393,205

Note 10**Long Term Debt****2005** **2004**

Loan payable to West River Foundation for Economic and Community Development in monthly payments of \$707 US including interest at 5.0%, due November 2011, secured by equipment.

\$ 51,894 \$ 59,300

Loan payable to The City of Spearfish in monthly payments of \$1,664 US including interest at 3.0%, due June 2014, secured by equipment having a net book value of \$354,665 and a joint first mortgage on land and buildings having a net book value of \$1,332,316.

336,516 354,716

Loan payable to The Revolving Economic Development and Initiative Fund in monthly payments of \$6,379 US including interest at 3.0%, due March 2009. The loan is secured by a joint first mortgage on land and buildings having a net book value of \$1,332,316.

1,257,300 1,327,582
 1,645,709 1,741,598

Principal amounts included in current liabilities

73,733 71,527
 \$ 1,572,337 \$ 1,670,071

Note 10
Long Term Debt
continued...

Amount due over the next four years and subsequent is as follows:	
2006	\$ 73,373
2007	76,881
2008	79,287
2009	1,135,102
subsequent	279,981
	<u>\$ 1,645,709</u>

Note 11
Obligations Under
Capital Leases

The future minimum lease payments under the capital leases are as follows:

2006	\$ 165,374
2007	65,986
2008	<u>10,998</u>
Total minimum lease payments	242,358
Amount representing interest at rates of 5.59% to 17.00%	<u>12,182</u>
Obligation under capital leases	230,176
Amounts included in current liabilities	<u>160,680</u>
	<u>\$ 69,496</u>

The company's obligations for equipment and vehicles under capital lease mature January, 2006 to February, 2008 and are secured by the specific leased assets with a net book value of \$372,125.

Note 12
Commitments
and Contingency

Commitments

a) The company leases its Westlock business premises under rental agreements. Annual rents are \$139,632. The terms of the rent agreements range from six months to seven years.

b) The company leases vehicles and other automotive equipment under operating leases with terms of up to 60 months. The aggregate future minimum operating lease payments are as follows:

2006	\$ 53,265
2007	\$ 26,831
2008	\$ 29,390
2009	\$ 21,135

c) The company has foreign exchange contracts to convert U.S. funds into Canadian funds with expiry dates of March 1, 2006. The company is contingently liable to purchase any unconverted balance of U.S. funds at the contracted exchange rate at the expiry dates. The details of these contracts are:

<u>\$US Amounts</u>	<u>Contract Rate</u>
427,000	1.172
504,312	1.169

Contingency

The company has an agreement with a floor plan company to provide inventory financing to some of its dealers. Under this agreement, the company is contingently liable to repurchase this inventory from the funder should one of these dealers experience a business failure. The floor plan funder does independent credit evaluations on all approved dealers. As of November 30, 2005, there is \$530,887 financed under this program. The largest exposure to any one dealer is \$248,465. Management believes that all dealers financed under this program are in sound financial condition and the likelihood of repurchasing inventory is low.

Note 13
Share Capital

Authorized:
Unlimited number of common shares
Unlimited number of Class A preferred shares
Unlimited number of Class B preferred shares
Issued:

	2005		2004	
	Shares	Amount	Shares	Amount
<u>Common shares</u>				
Balance, beginning of year	22,459,970	\$ 4,509,913	19,159,970	\$ 3,281,572
Shares issued for cash	-	-	3,000,000	1,200,000
Shares issued as compensation	-	-	300,000	90,000
	22,459,970	4,509,913	22,459,970	4,571,572
Share issuance costs	-	-	-	(61,659)
Balance, end of year	22,459,970	\$ 4,509,913	22,459,970	\$ 4,509,913

Note 14
Stock Options
Outstanding

The company has distributed 405,000 stock options of which all are distributed to directors, officers and employees under the terms of its stock option plan.
A summary of the status of the plan as at November 30, 2005 and 2004 and changes during the years then ended is presented below:

	2005		2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	405,000	\$ 0.465	742,000	\$ 0.435
Exercised	-	-	-	-
Cancelled	(157,000)	0.444	(337,000)	0.399
Outstanding, end of year	248,000	\$ 0.478	405,000	\$ 0.465
Options exercisable, end of year	248,000		405,000	

The option prices and expiry dates of the 248,000 stock options outstanding as at November 30, 2005 are as follows:

Expiry Date	Options	Option Price Per Share
May 30, 2006	40,000	0.364
December 14, 2006	208,000	0.500

Note 15
Income Taxes

The difference between the income tax provision using statutory income tax rates and the actual income tax provision is explained as follows:

	2005	2004
(Loss) income before income taxes	\$ (933,547)	\$ (441,625)
Canadian statutory rate	34.12%	34.12%
Income taxes calculated at statutory rates	\$ (318,526)	\$ (150,682)
Effect of differing tax jurisdictions	56,582	36,904
Non-deductible items	20,105	19,631
Effect of elimination of inter-company profit and other	(36,091)	236,532
Unrecognized benefit of non-capital loss carry-forwards	277,930	9,461
Income tax provision	\$ -	\$ 151,328

Future income taxes consist of the following temporary differences:

	2005	2004
Property plant and equipment	\$ 342,570	\$ 186,165
Inventory profit eliminated on consolidation	200,441	236,532
Warranty reserve	29,002	29,002
Intangible assets	(392,129)	(327,035)
Non-capital losses	272,679	262,721
Share issue costs deductible for tax	15,829	34,422
	468,392	421,807
Valuation allowance	(468,392)	(421,807)
	\$ -	\$ -

Note 16
Related Party
Transactions

Included in the revenues, expenses, assets and liabilities of the company are the following transactions with related parties. These transactions occurred in the normal course of operations and are recorded at exchange amounts, which is the amount of consideration established and agreed to by the related parties.

a) The company paid rent in the amount of \$79,200 to a company which is controlled by immediate family members of certain directors.

b) Certain directors of the corporation invoiced compensation for consulting services amounting to \$50,000. As at November 30, 2005, \$50,000 was included in accounts payable and accrued liabilities.

Note 17
Segmented
Information

The company segments its revenues into two reportable geographic areas. Reconciliation with the financial statements by geographic segment is as follows:

Year ended November 30, 2005	United States	Canada	Total
Tangible assets	\$ 5,777,625	\$3,123,294	\$ 8,900,919
Intangible assets	-	1,212,528	1,212,528
Revenue	13,057,180	462,286	13,519,466
Amortization	156,149	462,182	618,331
Interest Expense	271,351	258,530	529,881
Year ended November 30, 2004	United States	Canada	Total
Tangible assets	\$ 4,559,694	\$5,588,350	\$ 10,148,044
Intangible assets	-	1,021,750	1,021,750
Revenue	18,426,279	1,344,408	19,770,687
Amortization	112,526	778,437	890,963
Interest Expense	98,618	325,113	423,731

Note 18
Earnings
per Share

	Net Income	2005 Weighted Average Shares Outstanding	Per Share	Net Income	2004 Weighted Average Shares Outstanding	Per Share
Basic	\$ (933,547)	22,459,970	\$ (0.042)	\$ (592,953)	22,139,422	\$ (0.027)
Options assumed exercised	-	-	-	-	-	-
Shares assumed purchased	-	-	-	-	-	-
Diluted	\$ (933,547)	22,459,970	\$ (0.042)	\$ (592,953)	22,139,422	\$ (0.027)

For the year ended November 30, 2005, the following options were not included in the calculation of dilutive potential common shares as the exercise price exceeded the average trading value of the shares:

Expiry Date	Options	Option Price Per Share
May 30, 2006	40,000	0.364
December 14, 2006	208,000	0.500

Note 19
Stock Based
Compensation

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of issued and outstanding common shares as determined from time to time. Options granted under the Plan may have a maximum term of five (5) years. The exercise price of options granted under the Plan will not be less than the market price of the shares (defined as the last closing market price of the Company's shares on the last day shares are traded prior to the grant date), less the applicable discount permitted by the TSX-V Exchange rules. Stock options granted under the Plan vest immediately subject to vesting terms which may be imposed at the discretion of the Directors.

On March 1, 2006, the Company agreed to issue 1,000,000 options, these were formally issued in March, 2006. Using the above assumptions the fair value of the options granted is \$218,124. These options are vested monthly commencing August 2005 and therefore an expense \$36,354 of has been accrued.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

Dividend rate	0.0 %	Expected volatility	163.67 %
Risk-free interest rate	4.9 %	Exercise price	\$ 0.173
Expected life of option	5 years	Stock Price date of Grant	\$ 0.230

Note 20
Subsequent
Events

- a) On December 14, 2005 the following stock options were cancelled. Alladin Versi (46,000 shares) and Joe Fraser (46,000 shares) since they are both no longer members of the advisory committee. On January 10, 2006 Phil Shragge's 116,000 outstanding shares options were cancelled due to his resignation from the Board 90 days prior.
- b) On January 15, 2006, the Company completed its placement of a \$400,000 convertible debenture. The convertible debenture has a 2 year term, an interest rate of 5% per annum, and is convertible into common shares of the Company at a price of \$0.25 per share. The convertible debenture was purchased entirely by insiders of the company or related parties. The funds from this instrument were used for short term working capital
- c) Lehman Trikes has been notified by the California Air Resource Board that they are under subpoena for information relating to sales of trikes and kits in to the State of California. There is a possibility of some level of penalties, however, at this time the Company cannot reasonably estimate any potential liability.
- d) On March 1, 2006, the Company and Mr. Daniel Patterson renegotiated the Executive Employment between the two parties, under the revised agreement 1,000,000 options, vesting monthly (note 18) are to be issued.
- e) On March 20, 2006, the Company announced a private placement of to raise \$1.1 million by issuance of 8,380,952 shares at a price of \$0.13125 per share. The proceeds of this placement will be used for working capital.

Note 21
Comparative
Figures

Certain of the figures have been reclassified to conform to the current year presentation.

Lehman Trikes, Inc.
Westlock, AB, Canada

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